

# **Open Space Program**

February 25, 1997

(with Addendum C dated April 18, 1997)



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**Susan Cohen, Deputy City Auditor**  
**Susan Kraght, Principal, Kraght Snell, P.S.**  
**Kimberly Snell, Principal, Kraght Snell, P.S.**

**Nora Masters, City Auditor**

David Jones  
Jane Dunkel  
Kyle Langan  
Eileen Norton  
Lori Pang

## **City of Seattle**

1100 Municipal Building  
Seattle, Washington, 98104-1876





February 25, 1997

The Honorable Norman B. Rice, Mayor  
The City of Seattle  
Seattle, Washington 98104

Seattle City Councilmembers  
The City of Seattle  
Seattle, Washington 98104

Dear Mayor Rice and Councilmembers:

Attached is our report, Open Space Program. We prepared this report in response to questions about the Program's compliance with the 1989 open space bond measure and the Program's efficiency and effectiveness. The Department of Parks and Recreation issued a formal response to this audit, which we include as an addendum to the report.

We appreciate the assistance and cooperation we received from the Open Space Program staff. They worked very hard to ensure that we received the information we requested promptly. We were impressed by their professionalism and by the number of very positive comments we heard from Citizens' Oversight Committee members and from individuals whose land has been purchased by the Program.

Please contact me at 233-0088 or Susan Cohen at 233-1093 if you have any questions or would like additional information regarding this audit. To improve our work, we are asking our readers to complete and return the evaluation form at the back of our report.

Sincerely,

Nora Masters  
City Auditor

Enclosure



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## Executive Summary

With nearly \$90 million to spend in acquiring open space properties, the Open Space Program represents a sizable investment by the City of Seattle in the future of Seattle. For this reason we audited the Open Space Program to determine the extent to which it has:

- achieved the spending and acquisition objectives of the 1989 open space and trails bond<sup>1</sup> measure; and
- established appropriate management controls including a process to ensure reasonable prices are paid for property.

The Department of Parks and Recreation manages the Open Space Program. We also reviewed the progress of the Seattle Engineering Department's bond-funded Trail Program.

### **BACKGROUND**

The Open Space Program and the Trails Program started in 1990 with \$41.8 million from the 1989 King County Open Space and Trails Bond with the basic mission to preserve open spaces and to develop additional miles of multi-use trails. The original goal established in the Interlocal Agreement between King County and Seattle was to acquire the lands and develop the trails within five years. Since 1990 the Programs have earned \$9.2 million in interest and obtained approximately \$46.9 million in additional funding.

### **RESULTS OF OUR WORK**

As of June 30, 1996, the City's Open Space and Trails Programs, which began in 1990, had spent \$65.7 million to preserve open spaces and to develop additional miles of multi-use trails, including nearly \$51 million on projects targeted in the 1989 bond. Of the amount spent, slightly more than \$37 million came from the roughly \$41 million which the 1989 King County open space and trails bond measure originally provided. The remainder came from interest on the original bond money and from additional open space and trails funding sources. As of June 30, 1996, the City still had over \$32 million to spend of the total \$97.8 million on open spaces and trails which the 1989 bond measure identified and on other open space acquisitions which the City Council has approved after extensive public processes. Because the City had not yet spent all of the original bond money, the City technically had not yet complied with the spending objectives of the 1990 Interlocal Agreement between Seattle and King County in connection with the 1989 bond measure. However, the City's total spending on open space acquisitions from all funding sources had exceeded the original spending objectives, and its spending on trails had almost reached the original spending objectives. Overall, the City had spent nearly \$10 million (24 percent) more than called for in the 1990 Interlocal Agreement to acquire land and develop trails in projects targeted by the 1989 open space bond measure. In addition, the Open Space Program has spent over \$15 million from other fund sources to acquire open space in additional project areas.

The City has acquired open-space land more slowly than initially anticipated. Against an initial goal of nearly 287 acres in targeted areas, which it expected to achieve within five years, the City had acquired nearly 220 acres in bond target areas as of June 30, 1996. However, it had also acquired slightly more

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<sup>1</sup> King County Proposition: Public Green Spaces, Green Belts, Open Space, Parks and Trails.

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than 40 additional acres in other areas. By the completion of the Program, the City aims to acquire a total of 402 acres and will increase this goal as new grants and sources of revenue become available. In addition, 142 acres have been transferred from other jurisdictions to the Department of Parks and Recreation through the Program. Although slower than anticipated, Seattle's progress in acquiring open space (now at 70 percent of current goal) compares favorably with that of suburban King County cities (67 percent of current goal). Like the Open Space Program, the Trails Program is not yet complete. It has increased the original target of 5.5 miles to 6.5 miles and has completed 5.0 miles.

Our review found that the City has adequate controls in place to protect against overpaying for properties and that administrative costs appear reasonable. However, the City has spent considerably more per acre (averaging over \$231,000) than the nearly \$123,000 average that could be derived from the original acreage targets and bond funds. This increase in costs resulted principally from the inflation in land values over the last eight years, particularly between 1988 and 1990. By the end of the program, the City expects to have spent roughly \$223,000 per acre. The level of administrative and other non-purchasing and closing costs the Open Space Program has experienced appears reasonable. Program costs other than purchasing and closing costs account for 20.7 percent of total program costs which seemed reasonable based on our discussions with other land acquisition professionals.

Members of the Seattle Citizens' Open Space Oversight Committee, individuals whose land has been purchased by the Open Space Program, and individuals whose land is in the process of being purchased generally expressed satisfaction with the Program's management and progress. However, some were concerned about the role of the Citizens' Oversight Committee, the pace of the program, program costs, and appraisals. While our review addressed the pace of the program, the prices it pays, and its administrative costs, we did not review the appropriateness of appraisals or legal issues because they are outside our area of expertise. We found that concerns about the Oversight Committee's role stemmed from some Committee members seeing their role as providing oversight while the role described in the City Council's authorizing ordinance and by the Department of Parks and Recreation was that of an advisory one.

In general, the Open Space Program has appropriate management controls<sup>2</sup> that provide reasonable assurance of achieving the Program's objectives. These controls include appropriate segregation of duties, an effective system for authorizing and approving expenditures, periodic reconciling of accounts and records, an appropriate approval process for expending funds, complete property records and periodic reporting of Program results. The Program, however, could do a better job of communicating Program results to those outside the Department of Parks and Recreation.

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<sup>2</sup> This assessment is of the management controls in place in the autumn of 1996; we did not make an assessment of the management controls in place prior to this time.



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## **RECOMMENDATIONS**

**Oversight Committee:** Although the members of the Citizens' Oversight Committee generally expressed a high level of satisfaction with their experience on the Committee, the City should have been more precise in matching the Committee's title to its described role. We recommend in the future that the City, when setting up citizens' committees, clearly communicate the role these committees will play and ensure that the committees' titles and their roles match.

**External Reporting:** Although the Department of Parks and Recreation has established a good system of internal controls, it could improve its reporting of program results to those outside the Department. The Department should build on its "Seattle Green" newsletter and make available to external parties regular reports which present summary data that is both easy-to-comprehend and sufficiently detailed. These reports would enable the Citizens' Oversight Committee, the City Council and citizens to monitor more easily the objectives, performance and financial status of this complex program.



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## Introduction

With nearly \$90 million to spend in acquiring properties, the Open Space Program represents a sizable investment by the City of Seattle in the future of Seattle. For this reason we undertook an audit to determine the extent to which the Program has:

- 1) met the spending objectives of the 1989 open space and trails bond<sup>3</sup> measure;
- 2) achieved open space acquisition objectives (areas, acres);
- 3) established a process to ensure prices paid for property were reasonable; and
- 4) established appropriate management controls.

We also reviewed the progress of the Seattle Engineering Department's bond funded Trail Program.

## Scope and Methodology

In reviewing the operations of the Open Space Program since its inception, we:

- identified the 1989 open space and trails bond requirements and reviewed relevant City of Seattle ordinances;
- reviewed funding levels, and analyzed the Program's cash flows;
- reviewed the Program's management reports and traced data to Seattle's Financial Management System (SFMS);
- reviewed the minutes for all the meetings of the Seattle Citizens' Open Space Oversight Committee;
- interviewed members of the original and current Citizens' Oversight Committee, citizens whose land the program has purchased or hopes to purchase; and staff from land acquisition organizations in Florida, Texas, Illinois, Oregon and Washington, D.C.;
- randomly selected and reviewed the files of 30 property acquisitions which the Program has completed;
- provided the Open Space Program with a self-assessment tool for evaluating its management-control activities and reviewed and selectively verified the results; and
- reviewed the Program's current management reports.

In addition, we reviewed the progress of the Seattle Engineering Department's bond funded Trail Program in meeting its goals and reviewed a Department contract for work on the South Lake Union Trail.

Our review of financial data was as of June 30, 1996 and our review of the management control system was the system in place in the fall of 1996. A private Certified Public Accounting (CPA) firm assisted us in performing this review. We performed our work in accordance with Government Auditing Standards.

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<sup>3</sup> King County Proposition: Public Green Spaces, Green Belts, Open Space, Parks and Trails, 1989.

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## Background

In 1990 the City of Seattle established the Open Space Program in the Department of Parks and Recreation and the Trails Program in the Seattle Engineering Department after the passage of King County's 1989 open space and trails bond measure, which included \$41.8 million for the City of Seattle. The basic missions of the Open Space Program and the Trails Program are, respectively:

- 1) to preserve such open spaces as greenbelts<sup>4</sup> and natural areas<sup>5</sup> within the city by acquiring lands in specific areas through purchase, transfer, or donation; and
- 2) to develop additional miles of multi-use trails, including an extension to the Burke-Gilman Trail.

The original objective set in the Interlocal agreement signed between King County and the City was to acquire the lands and develop the trails funded by the 1989 bond measure within 5 years. However, the Program has received a number of additional grants which have enabled it to extend the program and acquire additional lands.

Since 1990 the two Programs have earned \$9.2 million in interest on the 1989 bond measure. The Programs have also obtained authorization for \$46.9 million in additional funding. The additional funding was for (1) meeting the original acreage and mileage objectives in the face of increasing land values, (2) purchasing additional acreage in bond project areas, (3) pursuing other open space projects; and (4) supplementing funding for the development of the Lake Union/Ship Canal trail. Below is a brief summary of this additional funding as of June 30, 1996:

- \$9.2 million in interest the City has earned on open space and trails bond measure moneys;
- \$8.4 million in Interagency Committee for Outdoor Recreation (IAC) grants from the State's Washington Wildlife and Recreation Program (\$7.6 million for properties in 10 targeted greenbelts and natural areas and for trail projects, \$0.8 million for shoreline sites);
- \$8.1 million in Annual Conservation Futures Tax allocations from King County's property tax collections for original 1989 bond measure objectives and two project areas the King County Council added later;
- \$20.2 million from King County's 1993 Regional Conservation Future Tax (RCF) bonds;
- \$5.3 million in 1993 from the Shoreline Park Improvement Fund<sup>6</sup> specifically to acquire certain additional fresh and salt water shoreline properties;
- \$0.4 million from the Community Improvement Contribution Fund<sup>7</sup> in 1994 to acquire additional open-space properties in West Seattle (augmenting the original open space and trails bond measure) and in Magnolia (augmenting the Shoreline Park Improvement Fund purchases);
- \$1.3 million which the City appropriated from the Capital Facilities Bond Fund<sup>8</sup> to acquire properties for parks and open space near housing projects or in under-served neighborhoods.

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<sup>4</sup> Greenbelts are open spaces which serve as buffers between incompatible land uses, mitigate the effects of noise and pollution; help protect environmentally sensitive areas; maintain habitats for wildlife; and promote and maintain the visual identity of separate and distinct districts.

<sup>5</sup> Natural areas are vegetated open spaces that are generally vacant or developed in such a way as to preserve their natural woody character.

<sup>6</sup> This fund resulted from the 1991 West Point Treatment Plant mitigation settlement.

<sup>7</sup> This fund was also a result of the 1991 West Point Treatment Plant mitigation settlement.

<sup>8</sup> This was funded from the City's portion of the Real Estate Excise Tax.

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- \$0.8 million in 1995 from King County under the Waterways 2000 program to acquire and preserve additional properties in specific areas along stream corridors;
  - \$0.2 million which the City appropriated from the Park Fund's Park Acquisition Subaccount to supplement a Shoreline Park Improvement Fund project;
  - \$2.2 million from three federal grants under the Intermodal Surface Transportation Efficiency Act (ISTEA) to supplement original funding for the design, right-of-way acquisition and construction of the Lake Union/Ship Canal Trail.

The Open Space Program is within the Facilities Maintenance and Development Division of the Department of Parks and Recreation and employs nine professionals and two clerical staff to manage open space acquisitions, including site selection, negotiation/condemnation, and purchase. The Department of Parks and Recreation's Financial and Administrative Services Division provides the accounting and grant-management services for the Program. The Program anticipates reducing its staff to approximately four professionals in 1998 and its staff levels after that will be dependent on future sources of revenues, such as new grants.

## **RESULTS OF OUR REVIEW**

### **Meeting Original Spending Objectives**

As of June 30, 1996, the City spent \$65,754,304 on open space and trails, of which \$50,738,956 was spent on the four project areas targeted in the 1989 open space bond —Greenbelts, Natural Areas, Opportunity Fund, and Trails. Technically, the City has not yet complied with the spending objectives of the 1990 Interlocal Agreement between Seattle and King County in connection with the 1989 bond measure. As seen in Table 1 (Row 4, Columns B and C), the amount of the 1989 bond measure funds the City has spent on these programs as of June 30, 1996 (\$37,211,576) is \$3,807,020 million (9 percent) short of the 1989 bond measure's spending objective (\$41,018,596).

**Table 1: Open Space Program Funding and Spending (As of June 30, 1996)**

	A	B	C	D	E
1		<b>Spending Objective</b>	<b>1989 Bond Funds and Interest</b>	<b>Other Funding Sources</b>	<b>Total</b>
2	<b>Total Funds Obtained</b>		\$50,877,548	\$46,926,256	\$97,803,804
3	<b>Funds Spent By 1989 Bond Measure Projects</b>				
	Greenbelts	\$23,500,000	(\$17,881,956)	(\$6,026,421)	(\$23,908,377)
	Natural Areas	\$8,218,596	(\$11,769,046)	(\$5,086,040)	(\$16,855,086)
	Opportunity Funds	\$3,500,000	(\$3,907,781)	(\$455,000)	(\$4,362,781)
	Trails	\$5,800,000	(\$3,652,793)	(\$1,959,919)	(\$5,612,712)
4	<b>Subtotal - 1989 Bond Measure Projects Funds Spent</b>	\$41,018,596.00	(\$37,211,576)	(\$13,527,380)	(\$50,738,956)
5	<b>Funds Spent for RCF and Other Greenspaces</b>			(\$15,015,348)	(\$15,015,348)
6	<b>Total Spending as of June 30, 1996</b>		(\$37,211,576)	(\$28,542,728)	(\$65,754,304)
7	<b>Fund Balance as of June 30, 1996</b>		\$13,665,972	\$18,383,528	\$32,049,500



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However, the following points are important to note:

- The Open Space Program has received \$9.2 million in interest earned on the 1989 bond measure.
- The Open Space and Trails Programs have obtained significant additional funding (\$46,926,256) from other sources for the Programs (see Column D).
- The City's total spending for Greenbelts, Natural Areas, and Opportunity Fund areas has exceeded the original spending objectives, and its spending on trails has almost reached the original spending objectives (compare Row 3, Trails, Column B to Column E). Overall, the City has spent \$9,720,360 (24%) more than called for by the 1990 Interlocal Agreement to acquire land and develop trails in projects targeted by the 1989 open space bond measure (Column/Row E4 minus B4).
- The Open Space Program has spent \$15,015,348 from other funding sources to acquire open space in additional project areas recommended through public processes and approved by the Seattle City Council subsequent to the 1989 bond measure (Column/Row D5).
- The Open Space Program and Trails Program as of June 30, 1996, still had \$13,665,972 from original bond proceeds plus interest and \$18,383,528 million from other sources (a total of \$32,049,500) to spend for acquiring open spaces and developing trails identified in the 1989 bond measure, as well as acquiring other targeted greenspaces (Row 7).

### **Achieving Acquisition Targets**

Although the 1990 Interlocal Agreement, which authorized the original \$41.8 million in bond funds for Seattle, specified the amount of funds for Greenbelts, Natural Areas and the Opportunity Fund, it did not specify the amount of land that the City had to acquire. The material prepared by the City of Seattle and given to King County to obtain support of the 1989 bond measure noted that "The proposed acquisition acreages...are approximate. Actual acquisitions may be more or less depending on the availability of land and changing real estate conditions. Real estate conditions and other means of protection may allow additional acquisitions but also may limit acquisitions in some cases."

While Seattle anticipates attaining or exceeding the original acreage targets established for the 1989 bond measure, Seattle's progress in achieving its targeted acquisitions has fallen short of what it initially anticipated accomplishing within five years. The City initiated the Open Space Program and Trails Program in 1990 with overall targets totaling 5.5 miles for trail development and 286.9 acres for open space acquisition (276.9 acres of greenbelts and natural areas plus 10.0 acres which the Opportunity Fund's public process subsequently targeted). As of June 30, 1996, the City has purchased 219.5 acres of its originally targeted 286.9 acres of open space (77 percent) in bond project areas. As Table 2 shows, as of June 30, 1996, the City had purchased acreage in all but one (Sunset Hill) of the original 27 target areas. In several areas (for example, St. Mark's, Duwamish Head, East Duwamish), the City's purchases fell short of the targeted acreage; while in other target areas, the City had purchased somewhat more than it had originally intended (for example, N.E. Queen Anne, Pipers Creek). Overall the Program anticipates exceeding the total of the original bond acreage targets, but acquisitions within the individual project areas may be less or greater than the original targets due to land availability and other factors.

**Table 2: 1989 Bond Measure Open Space Acquired Acres through June 30, 1996  
Compared to Original Targeted Acres**

Project Area Name	Acres Goal	Acres Acquired	Over (Under) (As Of 6/30/96)
<b>Greenbelts</b>			
Sunset Hill	13.30	0.00	(13.30)
Magnolia	1.70	1.70	-
SW Queen Anne	6.90	5.17	(1.73)
N.E. Queen Anne	3.50	6.87	3.37
Westlake	1.90	0.88	(1.02)
St. Mark's	8.60	2.44	(6.16)
Harrison Ridge	1.20	1.19	(0.01)
Duamish Head	38.40	20.33	(18.07)
West Duamish	42.80	47.94	5.14
West Seattle	3.30	0.63	(2.67)
East Duamish	50.50	26.96	(23.54)
Cheasty	8.40	7.10	(1.30)
Seola Beach	5.40	3.99	(1.41)
<b>Subtotal</b>	<b>185.90</b>	<b>125.2</b>	<b>(60.70)</b>
<b>Natural Areas</b>			
Pipers Creek	3.20	9.33	6.13
North Beach 30th	2.70	0.76	(1.94)
North Beach 90th	4.90	0.56	(4.34)
Thornton Ravenna	2.70	3.77	1.07
Thornton 25th	2.60	1.57	(1.03)
Wolf Creek	2.20	0.69	(1.51)
Leschi	6.10	2.55	(3.55)
Me-Kwa-Mooks	6.60	2.66	(3.94)
Pelly Place	0.90	0.74	(0.16)
Longfellow Creek	28.20	29.79	1.59
Mountain View	3.50	6.71	3.21
Kubota Gardens	16.50	14.66	(1.84)
Thornton Sand Point	2.10	2.28	0.18
Cheasty Blvd.	8.80	10.03	1.23
<b>Subtotal</b>	<b>91.00</b>	<b>86.1</b>	<b>(4.90)</b>
Opportunity Fund	10.00	8.18	(1.82)
<b>TOTALS</b>	<b>286.90</b>	<b>219.5</b>	<b>(67.42)</b>

As Table 3 below shows, the City had acquired 219.5 acres in bond project areas through June 30, 1996, plus 40.4 acres in additional greenspaces with supplemental funding, for a total of 259.9 acres acquired as of June 30, 1996. Table 3 also shows that the City has increased its overall target by 115.1 acres to a revised target of 402 acres, including an increase of 29.1 acres in the original bond target areas. The target increase was due in part to the supplemental funding received from various sources (see Background Section.) Meeting the new target will entail acquiring 142 acres over and above those acquired as of June 30, 1996. Further, the Program has worked with City, County and State government agencies to transfer jurisdiction over an additional 143 acres to the Department of Parks and Recreation.

**Table 3: Targeted Acres and Acquired Acres**

<b>Funding Source</b>	<b>Original Target</b>	<b>Increase</b>	<b>Current Target</b>	<b>Actual Acquired As of June 30, 1996</b>
1989 Bond Measure	286.9	29.1	316.0	219.5
RCF and Other Greenspaces	--	86.0	86.0	40.4
<b>Total</b>	<b>286.9</b>	<b>115.1</b>	<b>402.0</b>	<b>259.9</b>

The City increased its original goal of completing 5.5 miles of trails development to 6.6 miles upon receiving additional funding sources. As Table 4 shows, as of June 30, 1996, the City had completed 5.0 of the 6.6 miles of trail it has targeted, currently falling short only on the Lake Union and Duwamish trails. The City expects to complete this program by the end of 1998.

**Table 4: Completed Trail Miles Compared To Goal**

<b>Project Name</b>	<b>Revised Miles Goal</b>	<b>Miles Complete</b>	<b>Over (Under) (as of 6/30/96)</b>
Lake Union/Trail	2.80	2.10	(0.70)
Duwamish Trail	1.50	0.60	(0.90)
Interbay Trail	0.40	0.40	-
Burke-Gilman Trail	1.90	1.90	-
<b>TOTALS</b>	<b>6.60</b>	<b>5.00</b>	<b>(1.60)</b>

Although Seattle's progress in achieving its targeted acquisitions with 1989 bond proceeds has fallen short of the original five-year goal established in the Interlocal Agreement, this appears to have resulted from initially overly optimistic expectations. The scope of the Open Space Program was unprecedented in the City's history and required a number of unusual actions during the initial phases. These included hiring additional staff, contracting for negotiation services to handle the large number of acquisitions, developing acquisition strategies for project areas to connect greenspaces and wildlife corridors and facilitate future property management, and creating a citizens' committee and conducting public meetings. Seattle's progress compares favorably to that of the King County suburban cities in open space acquisition. The goal for the suburban cities was to complete their acquisition projects in three years, but as of June 30, 1996, they had acquired only 819 acres of their current acquisition goal of 1,222 acres (67 percent). As of the same date, faced with a five-year completion target, Seattle had acquired 220 acres against its current goal of 316 (70 percent). Furthermore, each suburban city had only a few projects, and very few acquisitions for each project. In most cases, an individual suburban city's program was so limited that it did not need to add program staff or invest time in a public process for identifying properties to be acquired. Seattle, on the other hand has completed roughly 360 transactions thus far, with the typical transaction involving less than an acre.

### **Meeting Open Space Cost Targets**

In purchasing open space properties, the City has spent considerably more per acre than it originally anticipated. At the start of the program, the City anticipated spending its original funding of \$35,218,596<sup>9</sup> to obtain 286.9 target acres (averaging \$122,756 per acre). Besides the actual purchase and closing costs, these costs include such activities as appraisal, environmental assessment, title search, negotiation, relocation, demolition and general administration. As of June 30, 1996 it had spent \$60,141,592<sup>7</sup> to purchase 259.9 acres (averaging \$231,402 per acre). As of June 30, 1996, the total

<sup>9</sup> Since this paragraph is only addressing the Open Space Program and not the Trails Program, the funds listed refer only to the Open Space Program portion of the funding.

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amount available to the Program was \$89,474,304,<sup>7</sup> with which the Program anticipated acquiring a total of 402 acres (averaging \$222,573 per acre).

The significant increase in land costs over the 1989 projected estimates appear to have primarily resulted from the inflation in land values over the last eight years rather than from overpaying for properties or from excessive administrative or other costs.

### ***Inflation in Land Values***

Purchase and closing costs, at nearly 80 percent of total program costs, dominate open space spending. Between 1988, when the City prepared its original cost estimates and 1990, when it purchased its first properties, land values in Seattle had increased by 58 percent. By 1995, land values had risen 88 percent over 1988 values. In addition, Open Space Program Officials noted that because some of the additional funding sources obtained by the Open Space Program targeted more expensive lands such as shore property, this has increased the average cost of the land obtained by the Program.

### ***Appraisals and Just Compensation***

The City's goal when buying property is to pay just compensation based on fair market value; that is, to ensure that sellers are financially compensated for the full value of their property. The City uses a two-stage appraisal process to ensure that it pays neither more nor less than the fair market value of properties. For most acquisitions, the City contracts with an independent licensed appraiser to determine the property's market value. The City bases its choice of appraiser on expertise with the type of property to be acquired (for example, vacant residential vs. industrial) and has used about three dozen different appraisers for the Open Space Program. A property owner can also hire an appraiser to provide an independent appraisal for the Program to review. The City's in-house Review Appraiser reviews each appraisal and either approves it, requests more supporting information, or rejects it. The current Review Appraiser has worked with all sectors and neighborhoods of Seattle and all types of property over an appraisal career of 27 years.

The Open Space Program makes its offers at fair market value as determined by the appraisal. The appraisal industry recognizes that appraisals are valid within a 10% range. Therefore, Open Space administrative settlements have been negotiated based on this standard, with some variation depending on property value or difficulty of appraisal. The Review Appraiser reviews and validates all administrative settlements.

In addition, the Program may pay a seller for compensable<sup>10</sup> costs. These costs are audited for appropriateness by an independent CPA firm. The Program seeks the City Council approval if compensable costs exceed the lesser of 10 percent of the purchase price or \$50,000 in accordance with Program policy.

### ***Non- Purchasing and Closing Costs***

The level of administrative and other non- purchasing and closing costs the Open Space Program has experienced appears reasonable. Encompassing all program costs other than purchasing and closing costs, these account for 20.7 percent of total program costs. Table 5 breaks down this 20.7 percent by major cost categories.

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<sup>10</sup> In general, expenses that may qualify as compensable costs are for services, work products, and permit fees that have objective value in the marketplace and enhance the value of the raw land. Some examples are environmental studies, topographic and boundary surveys, and approved development plans.

**Table 5: Percentage of Total Costs Spent on Non-Purchasing and Closing Costs**

<b>Cost Category</b>	<b>Percent of Program Costs</b>
Appraisal, Environmental and Preliminary Title	5.2%
Negotiation, Relocation, and Demolition	9.5%
General Administration <sup>11</sup>	6.0%
Total	20.7%

Most land-acquisition professionals we interviewed believed that a program such as Seattle's would likely incur between 10 to 20 percent in costs other than purchasing and closing costs.<sup>12</sup> Seattle's figure of 20.7 percent, therefore, if excessive, is only slightly so. In addition, various complicating factors with which the Seattle Open Space Program had to deal would be likely to push administrative costs to the high end of the range, according to these professionals. These complicating factors include:

- purchasing numerous small tracts rather than a few large tracts of land,
- obtaining significant amounts of public input,
- purchasing land in a rising market,
- acquiring contiguous land to create a manageable open space system,
- acquiring land from reluctant sellers, and
- seeking additional funding sources.

In addition, the Open Space Program has spent far less—only 6.0 percent of total costs—for a basic group of administrative expenses (staff salary, office expenses, and other miscellaneous cost) which the Department of Parks and Recreation originally projected at 12.4 percent of total costs. This group of administrative expenses did not include in-house acquisition costs, environmental assessment costs, or contracted-out acquisition costs. Various land-acquisition professionals told us they considered one or more of these additional costs to be administrative costs. Table 6 shows the effect of adding these costs.

**Table 6: Administrative Expenses As Percentage of Total Program Costs**

Open Space Program Goal (Basic Group)	12.4 percent
Open Space Program Actual (Basic Group)	6.0 percent
Basic Group plus in-house acquisition costs	7.8 percent
Basic Group plus in-house acquisition costs and environmental assessment costs	8.3 percent
Basic Group plus in-house acquisition costs, environmental assessment costs, and contracted-out acquisition costs	12.9 percent

Finally, it is worthwhile noting that administrative expenses tend to form a higher percentage of total expenditures in the earlier stages of land-acquisition projects, with expenditures for acquisition efforts and environmental assessments being incurred well before final purchase and closing costs. By the

<sup>11</sup> General administration includes staff salaries, office expenses and other costs not accounted for in the first three categories.

<sup>12</sup> Most of the open space programs we identified around the country differed so significantly from Seattle's program as to make direct cost comparisons meaningless. Some rely extensively or solely on donated lands, and thus administrative costs make up most or all of their costs. Other programs acquire a few very large tracts of land in rural settings, with purchasing and closing costs comprising as much as 90 percent of their costs.

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termination of this Open Space Program, it is, therefore, likely that administrative expenses will have fallen as a percentage of total expenditures.

### **Meeting Trail-Development Cost Targets**

The Trails Program has completed 5 out of the 6.6 mile development target and has spent \$5.6 million of the \$8.3 million in available funding. While the original cost per mile estimate was \$1,054,545, this estimate has changed to \$1,261,970. Currently, the actual cost per mile is \$1,122,542. The final 1.6 miles will be completed by the end of 1998 with the remaining funds of \$2,716,288. The Trails Program has generally met, and expects to continue to meet, the intended development targets.

We could not find evidence to support the concern expressed by an oversight committee member that the Trails Program may have paid an excessive amount for improvements to the South Lake Union Bike Trail. The Seattle Engineering Department initially contracted for the trail improvements at a cost of \$83,726.40 and ultimately paid \$84,321.58. The Engineering Department created some confusion because—in the face of time pressures—it “piggy-backed” on to the trail contract some improvements to brick pavements near Occidental Park in Pioneer Square in preparation for the Final Four Basketball Tournament. The cost of the work in Pioneer Square was paid from the Engineering Department’s maintenance fund, not the Trails Program.

### **Overall High Satisfaction With Program**

During our review of the Open Space Program we interviewed members from both the current and original Seattle Citizens’ Open Space Oversight Committee and a randomly selected group of individuals whose land the Open Space Program purchased. In addition, a number of individuals with concerns about the Open Space Program contacted our office, and we interviewed them.

Individuals we interviewed generally expressed satisfaction with the management and progress of the Open Space Program. However, some were concerned about the role of the Citizens’ Oversight Committee, the pace of the program, and program costs.

### ***Oversight Role***

Some Citizens’ Oversight Committee members questioned the role the Committee played. Some members saw their role as an oversight body (that is, having a management or supervisory role to play), and the group’s title reinforced this perception. However, the Committee functioned in more of an advisory capacity. The discrepancy between some members of the Oversight Committee’s and the Open Space Program officials’ perception of the Committee’s role stemmed from the City Council’s authorizing ordinance which called the Committee an Oversight Committee, but then defined its role as advisory. Our review of the minutes from the Seattle Citizens’ Open Space Oversight Committee shows that the Committee functioned extensively as an advisory committee.

### ***Citizens’ Satisfaction Recommendation***

While overall the members of the Citizens’ Oversight Committee expressed a high level of satisfaction with their Committee experience, the City could have been more precise in matching the Committee’s title to its role and ensuring that the Committee members’ expectations of their role matched those of the City. In the future the City needs to clearly define and communicate the role such a committee will play and match the committee’s title to its intended role.

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### ***Customer Service, Program Pace and Program Costs***

Almost all the people we contacted from whom the Open Space Program purchased land felt the Program staff had dealt with them in a timely, responsive and professional manner. However, one of these sellers, and the individuals who called us with concerns about the Program, questioned both the length of time required to negotiate purchases, and the quality of appraisals. A few members of the Oversight Committee were also concerned about the slow pace in which the Program is acquiring property. The individuals who called us about the program expressed concerns over the appropriateness of eminent domain to acquire land.

Finally, some Oversight Committee members believed that the Program may be paying too much for the land it buys. They also said that administrative costs may be too large a portion of program expenditures.

Our review addressed administrative costs, the length of time to negotiate purchases and the pace of the Program through several methods: (1) we consulted with land acquisition professionals around the country (see page 11); (2) we compared the Program's pace with suburban cities in King County (see page 9); and (3) we examined how the Program's costs compared to similar programs since a slower pace could cause greater costs (see page 11). We addressed appraisals by reviewing the appraisal process (see page 10). We did not re-evaluate any individual appraisal dollar amounts since this would not have been an appropriate audit function. The City's use of eminent domain was not addressed in this audit.

### **Management Controls Generally Appropriate<sup>13</sup>**

In general, the Open Space Program has appropriate management controls to provide reasonable assurance of achieving the Program's objectives. These controls include appropriate segregation of duties, an effective system for authorizing and approving expenditures, periodic reconciling of accounts and records, appropriate approval process for expending funds, complete property records and periodic reporting of Program results.

#### **Appropriate Segregation of Duties**

The City has appropriately segregated conflicting responsibilities within the Open Space Program. In particular,

- persons who initiate, evaluate and approve properties for acquisition do not perform project accounting, property records or general ledger functions;
- persons who initiate transactions do not give final approvals to commit government resources; and
- persons who perform project accounting and property record functions are not responsible for property maintenance and other custodial functions.

#### **Effective System for Authorizing and Approving Expenditures**

The Program has written accounting policies and procedures and an appropriate system for authorizing and approving expenditures. The Program clearly identifies who is authorized to initiate property transactions, and authorizing legislation clearly defines the limits of the Program's authority over various funding sources.

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<sup>13</sup> This assessment is of the management controls in place in the autumn of 1996. We did not make an assessment of whether the Program had adequate management controls prior to this time. We conducted this assessment primarily through a self-assessment questionnaire that the Open Space Program officials filled out and then through subsequent fieldwork to selectively verify the information provided by the Program.

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### **Periodic Reconciling of Accounts and Records**

Open Space Program officials monitor Program expenses monthly, using accounting reports from the Seattle Financial Management System. Program officials also perform periodic reconciliation of accounting records with those of the Department of Parks and Recreation's Accounting Unit and Program property records with the records of the King County Assessor.

### **Appropriate Approval Process for Reallocating Funds**

Program funds are not moved between major project categories without proper notification and approval from both the County and City. Requests for reallocation of funds follow a review/approval process which includes the Seattle Citizens' Open Space Oversight Committee, the City Council, the King County Citizens Open Space Oversight Committee, and finally, the King County Council.

### **Complete Property Records**

The Open Space Program maintains complete property records, including all correspondence and documents related to consideration or acquisition of property. The Program records the original deed for each property with King County and files it with the City Clerk. As part of our audit, we verified that the Program had received a deed for each of 30 property acquisitions we randomly selected.

### **Periodic Reporting of Program Results**

The Program reports monthly on the status of acquisitions and negotiations to key officials of the Department of Parks and Recreation, including the Superintendent, the Director of the Facilities Maintenance and Development Division, and the Real Property Manager. The City also submits semi-annual reports on the Open Space and Trails Programs to the King County Office of Open Space.

The Open Space Program also provides background information for any open-space legislation before the City Council and prepares updates on accomplishments and progress for the City Council and the Mayor, as requested. The most recent instance occurred in February/March 1996, when a briefing on Department of Parks and Recreation capital projects to the City Council and the Mayor's cabinet included a presentation on the status of the entire Open Space Program.

The Open Space Program also provides updates, program summaries, strategic overviews, and property tours to aid the Seattle Citizens' Open Space Oversight Committee. The Program also periodically reports to the citizens of Seattle through *Seattle Green: The Newsletter of the Open Space & Trails Programs*.

### **Internal Control Recommendations**

Although the Department of Parks and Recreation appears to have installed a good system of internal controls, it could still improve its reporting of Program results to those outside the Department. Due to the complexity of the Program, with its numerous funding sources and projects, it is challenging to present program data in an easy-to-comprehend, meaningful manner except at the highest summary levels. Still, the Program needs to make available to external parties regular reports that present detailed summary data that is both easy-to-comprehend and sufficiently comprehensive so that the Citizens' Committee, the City Council and individual citizens can more easily monitor the objectives, performance and financial status of this complex program.

Currently, the data reported by the Open Space Program does not allow external parties to readily understand and monitor various funding sources, the expenditures, obligations and fund balances for each funding source, and the variances between goals and accomplishments. In particular, the Program needs



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to provide clearer information on actual and projected acquisition levels, expenditures, schedules and explanations of variances that are clearly tied to objectives.

We recommend that the Open Space Program build on the information it produced for its Summer 1996 newsletter and prepare and make available to external parties a concise report semi-annually. The report should allow the reader to quickly grasp how much funding the Program is receiving, to compare the major cost components of the Program to budgeted amounts, and to compare the Program's progress in acquiring land with Program plans.

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The Department of Parks and Recreation's Response to This Audit Report

Response Available in Hardcopy Only

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## Office of City Auditor Report Evaluation Form



## Office of City Auditor Report Evaluation Form

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Our mission at the Office of City Auditor is to help assist the City in achieving honest, efficient management and full accountability throughout the City government. We service the public interest by providing the Mayor, the City Council and City managers with accurate information, unbiased analysis, and objective recommendations on how best to use public resources in support of the well-being of the citizens of Seattle.

Your feedback helps us do a better job. If you could please take a few minutes to fill out the following information for us, it will help us assess and improve our work.

\* \* \* \* \*

Report: **Open Space Program (February 25, 1997)**

Please rate the following elements of this report by checking the appropriate box:

	<b>Too Little</b>	<b>Just Right</b>	<b>Too Much</b>
Background Information			
Details			
Length of Report			
Clarity of Writing			
Potential Impact			

Suggestions for our report format: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Suggestions for future studies: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Other comments, thoughts, ideas: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Name (Optional): \_\_\_\_\_

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Call: Nora J.E. Masters, City Auditor, 233-0088

E-Mail: nora.masters@ci.seattle.wa.us

Drop by and visit: 10th Floor of the Municipal Building

## Open Space Program's Length of Time To Acquire Property

**OBJECTIVE:** To determine how long the Open Space Program takes to negotiate Open Space purchases and whether these time frames are reasonable.

**SCOPE AND METHODOLOGY:** To perform this analysis, we randomly selected 25 Open Space Program acquired properties and reviewed the length of time from the initial contact with the landowner to the final transaction purchasing the property. In addition, we reviewed the Program's progress in acquiring properties from three land owners who contacted us to discuss concerns about the acquisition of their properties. In addition to performing this analysis of time frames, we discussed purchase time frames for open space acquisitions with a land acquisition specialists in Portland, Oregon, and a land acquisition specialist in Austin, Texas.

**FINDINGS:** Based on our random sample of 25 projects, the time the Open Space Program takes to negotiate a purchase (from initial contact with a potential seller to the completed transaction) ranges from a few months to several years. As seen in Table 1 below, the Program completed 60 percent of the transactions in under 24 months and 40 percent in more than 24 months. The average time frame was slightly less than two years (22.8 months).

**Table 1: Length of Time From Initial Letter to the Completion of Property Acquisition**

Months From Initial Letter To Closing	Number of Examples	Months From Initial Letter To Closing	Number of Examples
		25-30	1
1-6	3	31-36	3
7-12	6	37-42	2
13-18	6	43-48	2
19-24	0	>48	2 <sup>14</sup>
Sub-total Under 24	15	Sub-total Over 24	10
Total			25

Land acquisition specialists told us they expected the average length of time to run two years or more because it takes owners some time to consider whether they want to sell their land and then to become comfortable with the fair market value of their land. Frequently owners initially have unrealistic evaluations of their properties' worth. The Open Spaces Division Manager for the Metro Regional

<sup>14</sup> (estimated time 66 months)

## Open Space Program's Length of Time To Acquire Property

Government (Portland, Oregon) told us his program completed 30 percent of their transactions in 1.5 years and aims at completing 50 percent in under two years. Other common factors working to extend time frames for completing purchases include:

- Difficulty in defining a partial acquisition, due to existing improvements which may encroach into the most probable take area.
- Multiple owners with different desires and needs.
- Absentee owners, who may never have seen the property, without a local representative;
- Titles with liens or other "clouds" which need to be cleared;
- Personal reluctance to sell because of old age and poor health; and
- A Program pursuing many properties simultaneously.

As Table 2 shows, the properties in our random sample which took over two years to close had other unusual factors delaying the process:

**Table 2. Factors Contributing to Purchases Requiring More than 24 Months**

Months To Close	Factors Contributing To the Length of the Process
25	A partial acquisition which included a Lot Boundary Adjustment and a Remainder Lot Application. Purchase completed within 9 months after completing appraisal.
31	Negotiations drawn out due to owner 's temporary work transfer to Louisiana and numerous family difficulties.
32	Owned by a Colorado Corporation, with property administration handled from Tampa, Florida. Owner's principal concern was environmental indemnification.
34	Resolving value took 18 months; then owners had to remove portion of deck encroaching into the take area.
39	First offer (2-24-94) rejected. Owner did not secure clear title until April, 1995. After subsequent re-appraisal, owner accepted offer.
40	Required re-appraisal based on additional development information.
45	Negotiations stymied by the illness and eventual death of owner and semi-retired status of his realtor.
47	Property changed ownership twice during negotiations.
51	Owner lived out-of-area part of the time and was indecisive. Agreed to sell only after Open Space Program acquired neighbor's property.
66	Due to irregular shape of this partial take, owner changed mind several times about what he was willing to sell. Eventually agreed to move shed onto property he retained. Acquisition to close soon.

For the three landowners who contacted our office, the factors which complicated their transactions were:



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Open Space Program's Length of Time To Acquire Property

Landowner 1: Owner with higher idea of property's worth than City's offers but without appraisal to substantiate. Condemnation trial in September, 1997.

Landowner 2: For two of his properties, the acquisitions are on hold pending other acquisitions in the Duwamish Head Greenbelt. For the third property, he has higher expectations of the value than the Program offers but did not commission an appraisal to substantiate his claim.

Landowner 3: During negotiations, the owner acquired vacated streets and pursued a number of lot boundary adjustments.

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**CONCLUSION:**

In acquiring land that is not already on the market, numerous factors contribute to the length of time required to complete a transaction. The Open Space Program requires 22.8 months on average to complete transactions and completes 60 percent of transactions in less than two years and 40 percent in more than two years. The amount of time which the Open Space Program takes to complete purchases of land matches the expectations of experts in land acquisition, compares favorably to the progress of the Metro Regional Government (Portland, Oregon) and appears to reflect competent performance.

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Open Space Program's Length of Time To Acquire Property